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SPECIAL SECTION

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ADVISORS' CORNER

Five Questions Boards Should Ask About Governance Transformation

Succession, Transformation, Inspiration

Our lead article is all about CEO succession planning, written by two of our most experienced partners on this topic for boards. Why are we talking about this again? It does seem to be a topic that keeps coming up and it's not Groundhog Day. As we anticipate new data from our 2023 biennial survey report to be published this fall, it is important to remember that succession planning is an area traditionally lacking on the part of board performance and adoption of best practices. And now more than ever, maintaining seamless leadership transitions and ensuring that the right leaders are at the helm will make sure we can continue the transformational changes that need to happen now, near, and far in this increasingly disruptive industry.

As my team was working on finding the right image for the cover of this issue, we recognized a thread weaving through the articles from which a timely theme emerges: we need leadership in place now (along with a plan for future leadership) in order to accelerate and achieve the care delivery transformation our patients need, in order to implement cutting-edge technologies such as AI in a meaningful way (without "waiting and seeing"). To do this requires trust and a deep, strong relationship with the board, CEO, and entire senior leadership team. Then ultimately, this level of transformative decision making requires boldness—bold boards, bold organizations, bold leaders, and bold directors. This issue at the height of summer brings these topics to you at the height of governance. Let's boldly go where no healthcare organization has gone before.

Kathryn C. Peisert

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Editor in Chief & Senior Director

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CEO Succession Planning: A Strategic Journey

By Andrew P. Chastain and Susan M. Snyder, WittKieffer

It's been said that a board's greatest responsibility is hiring the organization's next chief executive. One might presume, then, that CEO succession planning is a board priority. Yet, our discussions with hospital and health system leaders (reinforced by research[1]) indicate that only half have a formal CEO succession plan.

What's holding back the other half? CEO succession planning can be discomfiting for the individuals involved. For the incumbent CEO, succession planning raises the specter of their departure. It can be stressful for potential successors who now operate under the board's scrutiny—their growth and development having become a strategic imperative. Up-and-coming executives left out of the CEO succession planning process are likely to reevaluate their futures with the organization. (Boards can get out in front of this issue through broader executive succession efforts—a topic we will tackle in a future article.)

> CEO succession planning should not only begin early (i.e., as soon as possible no matter the current CEO's tenure) but never really cease; it's a continuous process, not an event.

The board must juggle these considerations amid its multiple priorities. In our conversations with chairs, board members, and CEOs, we have learned that incomplete or inadequate succession planning usually comes down to board prioritization—or lack thereof. In a post-pandemic era of evolving care models, debilitating workforce shortages, ailing finances, and heightened competition, directors too often relegate CEO succession to the back burner.

Precisely because of these challenges—and the strategic changes they prompt—no board can afford to bypass CEO succession planning. It is a strategic imperative not only for the future, but for performance in the here and now. CEO succession planning should not only begin early (i.e., as soon as possible no matter the current CEO's tenure) but never really cease; it's a continuous process, not an event. It's something a board should do as an element of strong governance—not always urgent but always important. Part of a good CEO succession plan is the constant development of the current CEO as the context around them changes. Even after a CEO's departure, the board should use the occasion to look back upon its past CEO development and transition efforts, evaluate them, and apply lessons learned to the future.

This approach transforms a periodic event into a development journey for the CEO, potential successors, and indeed the board itself—enhancing performance now while preparing for strategic needs in the future. Along this journey the board acquires increasing proficiency in the succession planning process.

Key Board Takeaways

- Research suggests that CEO succession planning benefits organizations and their chief executives, yet only half of boards do it at all and not all boards do it well.
- Boards and their CEOs can view CEO succession as a continuous journey with multiple stages, from identifying potential future CEOs within the organization to buttressing a new CEO's early tenure to evaluating the success of past succession planning efforts.
- Good CEO succession is proactive and future-facing, while also reflective of what's worked in the past and what can be improved. Done right, it:
  - Prepares the organization for an inevitable CEO transition
  - Drives strategic alignment between the board, CEO, and leadership team
  - Provides an impetus for strategic executive development
  - Facilitates and increases the likelihood of promotion from within

The Case for CEO Succession Planning

CEO succession planning—when undertaken as an ongoing process—accomplishes numerous strategic goals:

- First, the obvious: **It prepares the organization for the inevitable, a CEO departure.** Whether via retirement, resignation, dismissal, or illness, up to 20 percent of healthcare chief executives leave their posts in a given year, surpassing figures from most other industries.[2] A sound plan will account for emergency situations and varying contingencies as well as outline what a future orchestrated transition looks like. With a comprehensive plan in place, the organization ensures a smooth transition of leadership and minimizes disruption to the business.
- **It provides a forcing mechanism to drive strategic alignment.** A strong CEO succession process begins with a deep understanding of the organizational strategy, looking ahead three to five years. Often, CEO succession conversations with the board uncover areas where directors are misaligned with one another and/or with the CEO and executive team, prompting the opportunity to create alignment. While that enables the board to agree on future needs and requirements for the chief executive, it also provides benefits beyond succession, improving their ability to support—and if needed, challenge—the current CEO.
- **It adds momentum for strategic executive development.** Baptism by fire is not a viable CEO transition strategy. The board can lay the groundwork for succession through coaching and development on the changing mindsets and skillsets needed at the CEO level.[3] More importantly, the board can link CEO succession to the identification of critical roles (which are rapidly changing in healthcare) and consider executive team composition and long-term career movement—all of which improves current performance while engaging, stretching, and developing your most talented executives.
- **It enables promotion from within—or clarifies the need to look outside.**

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1 Kathryn Peisert and Kayla Wagner, *Advancing Governance for a New Future of Healthcare,* The Governance Institute's 2021 Biennial Survey of Hospitals and Healthcare Systems.

2 ACHE, "Hospital CEO Turnover Rate Remains Steady" (press release), May 23, 2022; Eben Harrel, "Succession Planning: What the Research Says," *Harvard Business Review*, December 2016; and Molly Gamble, "Hospital CEO Exits Hit 4-Year High," *Becker's Hospital Review*, February 28, 2023.

3 Mike Ettore, "Why Most New Executives Fail—And Four Things Companies Can Do About It," *Forbes*, March 13, 2020.

Generative AI: Technology Worthy of Leadership's Attention

By Sara Vaezy, Providence

Generative AI is a topic that is being discussed by nearly every business and technology leader in the world. Moving quickly and aggressively promoted in market, it is tempting to dismiss generative AI as another technology hype. This would be a mistake as we are at an inflection point in healthcare (as well as all industries) much like how the advent of the Internet and later, the iPhone, changed our lives and how we work and live, forever. Now is the time for boards and senior leaders to take stock of AI utilization and its potential to transform their organizations.

What Is Generative AI?

Artificial intelligence (AI) is not a single technology. It's an umbrella term used for many technologies and methods that mimic or even surpass human intelligence. Voice recognition, natural language processing (NLP), image processing, and advanced analytical methods like machine learning and deep learning all fall under AI.

As a very basic overview, generative AI is an advanced form of AI that creates content by being trained to recognize patterns and generate new content resembling the training sample. Large language models (LLMs), such as those that power ChatGPT, are AI models trained to understand and generate text similar to human writing. LLMs generate sentences by choosing the most probable next word based on the context of a human prompt. Examples include GPT-4 (OpenAI), PaLM-2 (Google), LLaMA (Meta), and Megatron-Turing (Nvidia).

Why Is It Different from Other Technology Hype Cycles?

AI has been used for decades in healthcare and beyond; however, generative AI is different because of significant technology and performance advancements that have enabled broad access and adoption.

Technology

The foundation models upon which generative AI use cases are built are complex neural networks that are trained on enormous amounts of unstructured data with trillions of parameters using deep learning. Foundation models are trained on not only vast amounts of data, but also on data across domains and topics. This gives generative AI versatility that other forms of AI have historically not had. As a result, generative AI has the potential to be stood up faster and its value proposition achieved more efficiently. That said, it is important to note that the trade-off to generative AI's versatility is reduced accuracy resulting from the broad domains across which it is typically trained. These challenges are being tackled by what is called "tuning"—the creation of domain-specific models for generative AI in which pre-trained models are customized to perform specific tasks or behaviors. It involves taking an existing model that has already been trained and adapting it to a narrower domain. This is likely the future of generative AI, much like it has been with traditional AI in the past.

Performance

Until the mid-2010s, AI models were less performant than humans across nearly all elements—handwriting recognition, speech recognition, image recognition, reading comprehension, and language understanding.[1] These systems have now exceeded human performance on numerous benchmarks and can not only generate content but also problem solve. AI can be used for a variety of tasks including classifying, editing, summarizing, researching, drafting, and answering questions.[2]

Adoption

Generative AI, and its most popular consumer form in ChatGPT, is the fastest-adopted technology of all time. ChatGPT reached 100 million users in just over two months.[3] The usability and accessibility of the platform has drawn users to experiment with the technology and has fascinated users with its potential.

Key Board Takeaways

- Healthcare is at an inflection point with technology enablement via generative AI. Every aspect of what we do will be impacted by generative AI.
- Leadership must balance speed and agility with appropriate guardrails around safety, equity, quality, and ethics in order to responsibly adopt AI.
- AI can assist, augment, and automate tasks, and systems need a framework by which they prioritize use cases, determine how they will leverage AI to enable problem-solving, and find partners that can accelerate transformation efforts.

Questions to ask management include:

- How are or should we be leveraging generative AI to reduce caregiver burden and enable them to better support patients?
- What are the opportunities we see for generative AI from an administrative and back-office perspective?
- Do we have a top-down approach in place to convene and organize efforts across the organization and create the equity and safety guidelines required?
- What organizations will we be partnering with to execute on an effective generative AI strategy?

How Providence Is Engaging

At Providence, we embrace these technologies. They are in alignment with our tradition for innovation in service to our mission. However, we also recognize that we must work with generative AI in a responsible manner to safeguard our caregivers and patients with a focus on reducing burden and enabling our doctors to focus on what they do best, while enhancing the patient experience. It is essential that we function as a team and ensure alignment in the face of rapid proliferation of vendor offerings.

We have instituted a top-down and bottoms-up approach to generative AI. Top-down we are convening and organizing cross-system efforts. We are focused on building the equity and safety guardrails to guide what and how we engage, while working within our existing constructs of information security and privacy as well as data ethics, identifying

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1 Justin Norden, Jon Wang, and Ambar Bhattacharyya, "Where Generative AI Meets Healthcare: Updating the Healthcare AI Landscape," *AI Checkup*, June 22, 2023.
2 Michael Chui, et al., "What Every CEO Should Know About Generative AI," McKinsey & Company, May 12, 2023.
3 Krystal Hu, "ChatGPT Sets Record for Fastest-Growing User Base," *Reuters*, February 2, 2023.

Trust: A Board–CEO Imperative

By Deborah J. Bowen, FACHE, CAE, American College of Healthcare Executives, and Pamela R. Knecht, **ACCORD** *LIMITED*

Working in the healthcare field has become even more challenging and complex over the last few years. Most hospitals and health systems have recently experienced workforce challenges, operational strain, disruptive pressures from new players, lower investment performance, and declining margins. Each one of these issues is arguably a key governance topic that requires the executives' and board's best thinking and analysis to exercise their fiduciary roles and do their best for patient care.

Healthcare organizations today—starting with the board and CEO—are trying to address these challenges while also ensuring high-quality, safe, equitable, accessible, affordable healthcare. In the current, very challenging environment, easy answers are in short supply. Indeed, leading today is a big job that, understandably, is resulting in tensions of a new magnitude as boards and executive teams navigate their way to the future.

A Strong Board–CEO Relationship Is Imperative

In our decades of work with boards and CEOs, we have noticed that those who have a healthy, trusting relationship are able to deal with stresses like these more easily and productively than those whose relationship is strained. Unfortunately, today's pressures seem to be causing and/or highlighting tensions in the board–executive relationship.

For instance, with increased uncertainty, some board members are demanding more detailed information about financial and other challenges. If they perceive that their CEO and executives are reluctant to provide that level of information quickly and transparently, or intentionally omit key information, some board members may begin to feel that they cannot trust their executives to be honest about the negatives as well as the positives.

On the other hand, when boards continue to press for more data, some CEOs and executives may feel that their boards are crossing the governance–management line and/or that the board does not trust them to do their jobs. The result is often a difficult relationship between the board and its CEO and other key executives.

One possible negative outcome of unaddressed relationship issues could be the exit of the CEO. A June 2023 report from Challenger, Gray & Christmas regarding dramatically increased CEO exits across industries states that "the 80 (CEO) moves within hospitals from January through May were up 70 percent from the 47 recorded in the same period of 2022. The number marks the third-highest year-to-date total across all 29 industries and sectors measured."[1]

Some CEOs have told us in confidence that they left because of a poor relationship with their boards. Therefore, it is interesting to note that according to The Governance Institute's biennial survey, for over a decade, boards have routinely rated their performance in the "board development" category as the lowest of all nine fiduciary duties and core responsibilities.[2] And they have consistently rated "management oversight" as fifth or sixth behind financial oversight and the three core fiduciary duties (see sidebar).

Key Board Takeaways

These diagnostic questions can help ensure there is a strong, mutually trusting relationship between the board and CEO. It is important to keep in mind that trusting board–executive relationships require a healthy dose of introspection, focused dialogue, and carefully structured and facilitated discussions. To begin, consider these questions:

1. (For CEOs and Key Executives) On a scale of 1–10, where 10 is high, how would you rate the level of trust between the CEO/executives and the board?
2. (For Boards) On a scale of 1–10, where 10 is high, how would you rate the level of trust between the CEO/executives and the board?
3. If any of the ratings are lower than desired, explore these possible reasons:
   a. Capabilities
   b. Candor
   c. Intent
4. Which of the following levers offer the best opportunities to improve the board–CEO partnership?
   a. Communicate regularly and transparently.
   b. Use competency-based selection.
   c. Set clear expectations.
   d. Prioritize healthy, collaborative relationships.
   e. Check in and improve.

For over 10 years, boards have rated their performance in "board development" lower than their performance in any other governance responsibility and "management oversight" performance has been fifth or sixth.

Overall Performance Year Over Year—Ranked by Composite Score

Fiduciary Duties and Core Responsibilities	Performance Rank				
	2021	2019	2015	2013	2011
Financial Oversight	1	1	1	1	1
Duty of Loyalty	2	2	3	3	3
Duty of Obedience	3*	3	5	4	5*
Duty of Care	4*	4	2	2	2
Management Oversight	5	5	6	6	6*
Quality Oversight	6	6	4	5	4*
Strategic Direction	7	7	7	7	7
Community Benefit & Advocacy	8	8	8	8	9
Board Development	9	9	9	9	8

**Performance scores for these oversight areas were tied.*

1 Challenger, Gray & Christmas, Inc., *Challenger CEO Turnover Report: Highest CEO Exits on Record,* June 22, 2023.
2 Kathryn Peisert and Kayla Wagner, *Advancing Governance for a New Future of Healthcare,* The Governance Institute's 2021 Biennial Survey.

These are troubling facts since we know that high-performing organizations are led by boards and executives that are each continuously improving and are communicating well about development opportunities.

Trust Is the Crucial Component

In countless conversations we have had with boards and CEOs, the question of how they work together has determined success or failure. One core element that hovers in the background of every board discussion—whether apparent or not—is trust. As Mike Dandorph, President and CEO of Tufts Medicine said recently, "Building a foundation of a strong, trusting, and fully transparent relationship with the board is essential. Without this, maneuvering through the current challenges in healthcare would be much more difficult than they already are." Gary Campbell, Board Chair of Tufts Medicine concurs. "This foundation of a good board culture, led by a strong partnership between the board chair and CEO, allows the board and management to engage in open, vigorous discussions, with diverse views expressed, that determine the strategic direction of the organization."

In this article, we propose that trust is essential to the board/CEO partnership and needs to be prioritized to build a strong, productive relationship between the board and CEO so they can, together, provide much needed leadership to their organizations during challenging times.

A Diagnostic Tool Regarding Trust

The Merriam-Webster dictionary defines "trust" as "A firm belief in the reliability, truth, ability, or strength of someone or something." Ideally, this is how the board feels about its CEO, and how the CEO sees their board and its members. However, we have heard too many stories of boards and CEOs who do not have a relationship of mutual trust.

In these cases, it can be helpful to identify possible reasons for any mistrust. We offer here a diagnostic tool that is a variation on work done by Roger Mayer and his colleagues who described these three elements of trust: ability, integrity, and benevolence.[3] Based on our experience, we find a helpful way to describe these elements is*: capability, intent, and candor.* Each of these elements is explored below.

Capability

The term "capability" is used here to mean the skills, experiences, and expertise of an individual or a group. For instance, for a board to trust its CEO, the board members must believe that the CEO has the skills and experience to lead a complex healthcare organization. In one organization we know, a health system board ultimately concluded that its current CEO did not have sufficient ability to think and plan strategically in their highly competitive market, so it did not trust the CEO to continue leading the organization. The board ended up asking the CEO to leave and conducted a national search for someone with proven strategic abilities in addition to all the other capabilities needed by a system CEO in these times. In addition, the board revised its CEO selection process to include more due diligence regarding track records of candidates.

On the flip side, a CEO may not trust the board or individual board members if they have not had any experience as senior executives in a large organization. In this situation, it is often difficult for the CEO to trust the judgement of their board regarding complex decisions.

In either of these cases, the relationship suffers because one party does not trust that the other has adequate abilities/capabilities to do their job.

Intent

Intent becomes an issue in the board–CEO relationship when one party believes the other has ulterior motives. For instance, some CEOs may not fully trust some physician board members who have significant conflicts of interest. In one health system, physician board members shared confidential information about the system's potential purchase of a physicians' practice, which put the executive who was negotiating that deal into a very difficult situation. Understandably, the CEO and her executive team became concerned about sharing complete information with the full board, which ultimately led to some mistrust between management and the board.

At times, the board may question the CEO's intent. There have been instances where the CEO has had a sub-agenda that caused the board to question his/her trustworthiness. In one example, the CEO was employed by a company providing management services to the hospital, and some board members began to feel that the CEO had a hidden agenda to sell the hospital to that company.

If anyone, board member or executive, questions another's motives or intent, it is difficult to trust them.

Candor

The third key element of trust is candor. As mentioned above, some CEOs are not fully trusted by their boards because some board members think that the CEO is only sharing good news, and not bad news. This causes the board to wonder if the CEO is being honest about the organization's performance. We know of an example where a CEO chose not to promptly share with the board a 2-star rating that had been received by the Centers for Medicare and Medicaid Services (CMS) regarding a quality measure. Once the board found out about the low score, there was a rift in the board–CEO relationship.

Sometimes it is a board member that is not being honest with the executive team or CEO. In one case, someone agreed to chair the board's finance committee without admitting that he was not sufficiently knowledgeable to do the job. In this scenario, the board member was not being honest *and* did not have the requisite capability.

For a list of tools and practices for addressing issues related to capability, intent, and candor, see bit.ly/3PV5WuG.

Trust as a Lever

In each of these scenarios, trust was compromised, illustrating that the stakes can be high for both the organizations and for the individuals involved. In our framework, when capabilities, intent, and/or candor are questioned, trust becomes absent, friction emerges, and the climate for effective decision making devolves. In this environment, neither the board nor the executives are fulfilling their fiduciary duties to the organization and communities they serve.

Equally important is that capability, intent, and candor can set the stage for trusting, productive, healthy working board–CEO relationships where superior results and performance can be achieved. In recent conversations

3 Roger Mayer, James Davis, and David Schoorman, "An Integrative Model of Organizational Trust," *The Academy of Management Review*, 1995.

with CEOs and board members about trust, the key ingredients noted include respect, candid dialogue, confidentiality, and transparent communication. As such, a trusting relationship is equal in importance to the contents of the board agenda.

In his book, *The Speed of Trust,* Stephen Covey notes that trust is a combination of character (your integrity and motives) and competence (your capabilities and track record).[4] To gain and keep trust, it must be practiced in each relationship, in every encounter. As Covey notes, it is the product of how we "see, speak, and behave." Realizing the full benefit of trust is the job of every leader—in the boardroom and in the executive ranks. It is as powerful and fragile as anything else we do as leaders.

Trust-Building Advice

In past ACHE surveys and more recently, in talking directly to board members and CEOs about trust, certain themes prominently emerge. What is most striking about these conversations is their similarity. These themes are not new, and they have formed the core of leadership effectiveness for decades. Yet nearly every leader interviewed emphasized their importance. They also stated that good governance is about people—the relationships we have and steward—and ensuring their trust may be the best governance practice today.

Here are the themes from those interviews as well as from our experiences regarding how to build or strengthen trust. These are codes of conduct for the CEO, executives, board chair, and board members equally; trust is everyone's responsibility.

Communicate regularly and transparently. Proactive, transparent communication was voiced most prominently as critical. It is imperative to share good news and bad news when needed and follow the "no surprises" rule. Honesty in communication is the foundation of all three elements described above. Mark Marsh, President and CEO of Owensboro Health in Kentucky asserts, "Transparency, communication, and building trust are key to a great relationship between the CEO and board."

Further, there is an adage that "sending is not the same as receiving." Listening is an important part of communication and taking time to hear the full information may prevent any misconceptions about intent. Therefore, the goal is to create a real, two-way understanding between the CEO and board before discussing further action.

Specific tools to assist with communication include establishing a CEO–board communication plan that includes multiple vehicles (e.g., a monthly, written CEO report and/or quarterly video regarding the status of the organization vis-à-vis its strategic imperatives).

Use competency-based selection. Both board members and CEOs emphasized the need for each party to have sufficient capabilities to handle their roles. This highlights the importance of a well-designed CEO selection process, and a robust, competency-based approach to board selection and reappointment. The basis of an effective CEO selection process is the CEO profile, which should clearly articulate the expertise, experiences, and behaviors that the organization needs in its leader. ACHE and The Governance Institute each have resources and tools to assist with this crucial governance job.

Similarly, best-practice boards use a competency-based (versus a representational) approach to board member selection. They identify the skills, diversity, perspectives, and behaviors that the board needs to ensure it can adequately oversee management. Those competencies include strategic thinking and complexity management, as well as expertise in finance, quality, law, etc. One interviewee stated, "Select individuals with varied and complementary backgrounds, who can devote the time and will assist with immediate and long-term objectives of the organization." Just as important is to use the same competency-based approach to determine whether to reappoint board members when their terms have expired. That practice can free up space on the board for individuals with newly needed expertise such as cybersecurity or population health management.

Set clear expectations. Boards and executive teams have certain responsibilities to fulfill. Performance expectations and role clarity are both needed. Both board and executive team members need to understand the difference between strategy vs. operations and governance vs. management and then structure their meetings and materials accordingly. In equal measure, boards and leaders must understand their responsibility outside the meetings. Both formal and informal behavioral expectations should be clear.

Practical steps here include providing initial and ongoing education to board members and executives regarding governance roles and responsibilities (e.g., fiduciary duties, core governance responsibilities, the governance–management distinction). In addition, developing written job descriptions for the CEO, board officers, and board members will help clarify roles.

Prioritize healthy, collaborative relationships. Make cultivating relationships between the board, CEO, and key executives inside and outside of scheduled meetings part of the CEO's and board chair's work. Managing relationships may be the hardest task as conflicts do and will arise. What is most important is getting tensions resolved and doing so quickly. Making time to build and improve relationships can help provide insights into individual specialized expertise and result in a greater understanding of interests and motives, while deepening experiences overall. Connecting people to purpose, and purpose to results, strengthens culture and results.

The healthiest board–CEO teams have developed a code of conduct and a board–CEO agreement that state what each expects from the other. For instance, the board and CEO might agree that they want a culture of collaboration and accountability and that their interactions will be governed by a code of conduct. That code could include behavioral guidelines such as:

- Focus on the mission.
- Assume good intent.
- Be honest.
- Keep conversations confidential.
- Declare potential conflicts.

The CEO may expect that board members will prioritize education, preparation, meeting attendance, committee service, and active engagement in discussions. He or she may also prefer that board members communicate directly with the CEO and/or select senior executives. The board may want the CEO to provide materials in a timelier manner, to elevate the materials to the governance-level, and to be transparent with both good

4 Stephen R. Covey, *The Speed of Trust: The One Thing That Changes Everything,* Free Press: New York, NY, 2006.

and bad news. Board expectations may also include a desired cadence of communication from the CEO.

These board–CEO codes of conduct and expectations agreements should be openly discussed and agreed upon in a facilitated retreat setting. (See the "Key Board Takeaways" sidebar on page 5 for some of the questions to be addressed in such a session.)

Check in and improve. There is no substitute for open communication about the development needs for both the board and the CEO. No CEO or board are perfect. Jackie Fredrick and Cathy Jacobson, Board Chair and CEO at Froedtert Health, suggest, "We gather feedback through surveys, executive sessions in board meetings, and routine check-ins on an individual basis. Having a mindset of mutual expectations, transparency, respect, and constant improvement grounded in the values of the organization are essential to implementing the feedback." There are also plenty of tools to ensure formal evaluation for boards and CEOs. The key is to create specific improvement goals. The board's governance committee should ensure that one to three board development goals are set and monitored each year. Similarly, the annual CEO evaluation process should result in one to three individual development goals designed to strengthen the relationship with the board.

Conclusion

Building a mutually trusting relationship between the CEO and board is the secret sauce for leadership to work together to successfully address healthcare's challenges today and in the future. The impact of losing trust cannot be overstated. However, when trust is present, governance will be at its best and will extend beyond the boardroom to result in positive outcomes for patients, organizations, and the communities we serve. Afterall, board members are called "trustees."

The Governance Institute thanks Deborah J. Bowen, FACHE, CAE, President & CEO, American College of Healthcare Executives, and Pamela R. Knecht, President & CEO, **ACCORD** *LIMITED, for contributing this article. They can be reached at dbowen@ache.org and pknecht@accordlimited.com. The authors would also like to thank John "Jack" J. Lynch, III, FACHE, President & CEO at Main Line Health, and Michele K. Sutton, FACHE, President & CEO at North Oaks Health System, for sharing their expertise and experience for this article.*

Generative AI...

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technology partners that can enable/support transformation, and deploying system resources to support focused efforts and use cases. Bottoms-up we are identifying pain points and potential use cases by segment and user group. We have also deployed a secure architecture and standards for appropriate use of generative AI in development and production, including a non-public version of ChatGPT that prevents PHI and intellectual property from leaking.

We have broken our evaluation of use cases into four strategic domains: clinical, consumer/patient, administrative, and back-office. Depending on the customer needs, operational, organizational, and technological readiness, machines can **assist** (e.g., collect patient intake information), **augment** (e.g., provide differential diagnosis to support clinical decision making), or be **autonomous** in completing tasks. The degree to which machines need human-like intelligence varies in these levels. Additionally, for some tasks, the application of AI and machines only makes sense if they exceed human cognitive abilities and performance significantly. This is particularly important when it comes to AI in an autonomous state. For clinical teams, this might mean supporting clinical decision making or automating mundane tasks; for consumers and patients, it might highly personalize the patient experience based upon their unique needs, motivation, and preferences; and for the back-office it might mean intercepting and redirecting patient inquiries to the best channel for supporting the patient.

How Organizations Should Approach Generative AI

To effectively utilize generative AI, healthcare organizations should ensure their approach is strategic, open, and targeted.

AI strategy and plan: In addition to their digital roadmap, every organization needs to plan for the impact of AI on its operations, human resources, and culture. AI is going to transform how caregivers perform their jobs. This has implications for how we educate and train our workforce. Healthcare consumers increasingly expect personalization and on-demand services at their convenience, just as they experience in other industries. Given how quickly the advancements are happening in generative AI, it's important to keep this plan agile and responsive to the pace of change.

Find partners: Here at Providence, we are leveraging our strong partnerships with Microsoft as well as other companies that deploy developer platforms for AI/machine learning and for training and tuning large language models to deploy generative *infrastructure* at scale. We as a system are focused on creating high-value user-facing applications that allow our clinicians, analytics, healthcare intelligence, and care teams to leverage the power of this incredibly powerful class of technology.

Change management: In our AI framework, we consider tasks that are dull, dirty, dangerous, or difficult for humans to be prime candidates for exploring AI solutions, where machines can assist, augment, or automate these human tasks. The workforce needs education, training, and help with understanding how this impacts their future jobs. Ultimately, the goal is to free humans to do more intelligent, complex tasks, and care for patients. However, the change in workflows and how caregivers think about their jobs requires careful transition and change.

Given the potential positive impact that generative AI can have on organizational transformation, boards and senior leaders should both understand and proactively support a strategic approach to applying generative AI to their organizations. When applied correctly, generative AI has the potential to support our workforce and our patients in significantly new ways—and transform healthcare organizations to better support their missions.

The Governance Institute thanks Sara Vaezy, Executive Vice President and Chief Strategy and Digital Officer at Providence, for contributing this article. She can be reached at sara.vaezy@providence.org.

Bold Governance

By JoAnn McNutt and Sara Finesilver, Board First Consulting, LLC, and Samuel J. Santoro, D.O., FACOG, Sutter East Bay Medical Group

Much has been written in the past decade about the importance of healthcare boards governing by policy and/or moving through the stages of fiduciary, strategic, and generative governance as dictated by the board's sophistication and the organization's needs. These frameworks have helped steer boards toward actionable goals, such as updating board policies and committee charters, reviewing the corporate bylaws, and refreshing the strategic plan—all of which are proven good governance practices. Only a few boards, however, have successfully gone beyond "good governance" to become top-tier boards that practice *bold* governance.

If health system and hospital boards cannot demonstrate the strength, courage, and ingenuity to survive the current and forecasted economy, they are at risk of their organization closing. They must govern effectively to compete in an increasingly demanding market. According to research conducted by Kaufman Hall, one in five hospitals are at risk of closing—and this is only in California.[1] As we look across the nation, the U.S. News & World Report predicted earlier this year that over 600 hospitals in rural areas—nearly 30 percent of all rural hospitals in the country—are in danger of shutting down.[2]

When a hospital is in critical condition, the responsibility ultimately lies with the board to guide and help save it. Now is the perfect time for boards to rise to the occasion and respond to the demand through bold governance.

Bold governance can be defined as a board's courage to act in the organization and stakeholders' best interest without hesitation to make hard choices. Courageous boards engage in the deepest level of self-critique, regularly assessing their performance and reflecting on whether they have the right competencies in the room to represent their communities. They respectfully challenge the status quo and operating assumptions and take meaningful action toward cultural change.

We offer the following framework to help define the core elements of bold governance:

1. **Beta testing:** Great boards do not hesitate to take healthy risks. They champion change by trusting management to implement it as they see fit, even if it means piloting the new idea with a department, service line, care site, or system hospital. These boards encourage innovation and reward leadership teams who take the initiative to make positive change.
2. **Stress testing:** Successful boards are unafraid to put every option on the table and examine their assumptions around the current and potential future states. They explore possible alternatives, especially the ones that feel taboo or unpopular. By stress-testing the current state, they will either affirm that they are on the right path or identify areas that require course corrections in their strategy, board structure, leadership, or culture to withstand turbulence.
3. **Concept testing:** High-performing boards engage in routine deep-dive discussions about what their competitors are doing and how the healthcare industry is rapidly changing due to technological advancement, big data, corporate acquisitions, etc. In collaboration with the senior management team, these boards spend significant time discussing macro-level factors and implications for their strategic plan. Options are carefully weighed, including the opportunity cost of *not* taking any action.

Practical Examples of Bold Governance in Action

Below are concrete examples of how hospital and health system boards can begin to govern boldly, starting with the next board meeting.

Keep noses in and fingers out:

- Decide what sources the board and management will use to curate relevant and trending topics influencing the industry and the communities served. Expect board members to stay informed through these sources in between board meetings.
- Agree on the metrics the board and committees will use to oversee the implementation of strategic priorities and monitor progress, ensuring a shared understanding of what success looks like.
- Review, update, or create a board discussion calendar paced 12–24 months out. Each board meeting should have strategic, meaningful topics throughout the annual calendar.
- Trust management to do their job and leave operations and running the organization to them.

Make no assumptions:

- Identify areas of status quo or complacency to challenge. Questions to

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Key Board Takeaways

Boards must...

- Ensure every director can articulate the organization's mission, vision, and values.
- Stay out of operations by building trust and confidence with the management team.
- Agree on the metrics to track success.
- Ensure the committee structure supports and does not hinder/burden the management team.

Organizations must...

- Be agile and able to adjust quickly to barriers and roadblocks.
- Ensure a clear strategic roadmap is in place that everyone can follow.
- Be clear about "what is celebrated and what will not be tolerated."
- Reward innovation.

Leadership must...

- Develop and maintain a strong, honest, and respectful relationship with the board.
- Manage change effectively and efficiently.
- Communicate constantly.

Directors must...

- Take it upon themselves to keep up with industry trends.
- Be ambassadors of the board when outside the boardroom.
- Be prepared for all meetings and come with a curious and open mindset.

1 Kaufman Hall, "Hospital Services at Risk Throughout California," April 2023.

2 Dennis Thompson, "Hundreds of Hospitals Could Close Across Rural America," HealthDay, January 16, 2023.

CEO Succession Planning...
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While externally hired CEOs are often brought in to "shake things up" or provide new energy and strategic vision, most organizations prefer a seamless internal succession—and benefit from it. CEOs hired internally tend to acclimate faster, have lower incidences of turnover, and even find more success.[4] Boards have the option for the best of both worlds by starting early. Long-term CEO succession planning can identify and bring in leadership talent well before the need, strengthening performance now while enabling new talent time to truly understand the organization.

Getting CEO Succession Right

Not all CEO succession planning is *good* succession planning. What defines "good"? It is:

- **Proactive**: Starts the minute you hire a new CEO, or (ideally) has begun well before.
- **Future-facing**: Reflects where the organization is going, not where it is.
- **Versatile**: Allows for multiple contingencies and regular modifications to account for changing internal or external conditions.
- **Developmental**: The individual(s) being groomed for the CEO role should benefit from the process, regardless of whether they ever become chief executive. It is not a horse race to benefit the individual who eventually noses in front.
- **Continuous**: CEO succession planning is an ongoing process that provides an opportunity for the board to engage with each CEO in a collaborative journey.

A hospital's or health system's CEO succession efforts should precede and succeed each CEO's tenure. In between are myriad opportunities for the board to embrace its responsibility for succession:

- Identifying high potentials who may one day become CEO
- Overseeing the development of these executives
- Conducting a search (if needed) and formally selecting the next CEO
- Executing the handoff between outgoing and incoming CEOs
- Directing the launch and onboarding of the new CEO
- Evaluating the success of previous CEO succession efforts to inform future ones

One might argue that this much involvement qualifies as board overreach. We maintain that the more comprehensive the board's management of succession, and the more involved it is in the multiple steps and stages of a robust succession process, the better it can fulfill one of its chief functions: to mitigate organizational risk.

Long-term CEO succession planning can identify and bring in leadership talent well before the need, strengthening performance now while enabling new talent time to truly understand the organization.

Supporting the Start of a CEO's Tenure

Foremost among these risks is CEO failure. Just three in five newly appointed CEOs live up to performance expectations in their first 18 months.[5] Some 30–45 percent are regarded as disappointments, due primarily to issues relating to organizational politics, culture, and people, increasing the likelihood of an early exit. The cost of a CEO *failing to launch quickly* can also be negative. More than half of externally placed CEOs and a quarter of internal hires admit that it took them at least six months to have a real impact.[6] The consequences of a slow start include:

- Questions about the credibility of the placement and board's decision
- Lost momentum on important initiatives, due to lack of clarity on the leadership team on strategy, structure, accountabilities, and KPIs
- Loss of confidence both internally and with other key partnerships
- Aggressive response from key competitors

"Given the stakes, it is surprising how little good guidance is available to new leaders about how to transition more effectively and efficiently into new roles," notes Michael Watkins in *The First 90 Days*.[7] All of which makes the case for CEO succession planning that includes robust onboarding and ongoing development for the newly hired executive—and their team.

Looking Back

Finally, we recommend that each board review its succession efforts approximately a year after the new CEO begins. This allows questions to be asked and answered that benefit from hindsight:

- Was the CEO transition smooth and, if not, what hurdles or hiccups can be avoided next time?
- Related to the above, did the outgoing CEO help or hinder the transition?
- Did we lose strategic momentum? Which projects and priorities suffered, and why?
- What was the collateral damage or fallout of the changeover? Did morale or culture take a hit? Did we lose key talent?

The importance of CEO succession planning as a core function of good governance can't be overstated. Yet many boards haven't done it and those that have are often less prepared than they believe.[8] Our advice is to place it as a standing item on the board's agenda and to keep it there. CEO succession is an opportunity to prepare, proactively and holistically, for inevitable turnover at the top while improving performance today.

The Governance Institute thanks Andrew P. Chastain, President and CEO of WittKieffer, and Susan M. Snyder, Managing Partner for WittKieffer's Leadership Advisory solution, for contributing this article. They can be reached at andrewc@wittkieffer.com and ssnyder@wittkieffer.com.

4 Scott Keller, "Successfully Transitioning to New Leadership Roles," *McKinsey Insights*, May 23, 2018; Claudio Fernández-Aráoz, Gregory Nagel, and Carrie Green, "The High Cost of Poor Succession Planning," *Harvard Business Review*, May–June 2021; and Development Dimensions International, "Leadership Transitions Report 2021."
5 Strategy& (PwC), "CEO Success Study," 2018.
6 Keller, May 2018.
7 Michael D. Watkins, *The First 90 Days: Critical Success Strategies for New Leaders at All Levels*, Harvard Business Press, 2003.
8 Elena Lytkina Botelho, Shoma Chatterjee Hayden, and B.J. Wright, "Beware the Transition from an Iconic CEO," *Harvard Business Review*, February 1, 2023.

Bold Governance...

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ask may include: Why do we have these committees? Do they meaningfully support the board's work or inadvertently create more work for us and management? Why are we structured this way? Are we incentivizing the wrong behaviors?

- Clarify key terms before engaging in deep-dive conversations. Get on the same page regarding any assumptions behind the definition of different words. For example, "strategic planning" may mean different things to different people, groups, and organizations.
- Encourage management, committees, and board leaders to ask themselves, "Why are we doing it this way? How might we work smarter, not harder?" Do not assume the way things have always been done is the only way.

Practice awareness:

- Create a board culture of psychological safety, respect, and openness. Encourage dissent and honest feedback.
- Establish an environment of learning and growth within the board using regular assessment, development, and education tools.
- Ask for feedback from management (consider including them as raters on the annual board assessment).
- Identify any past missteps or previously missed opportunities, ensuring policies are in place to prevent repeating the same mistakes. If a policy is missing, define the timeline and owner for creating it.

Elevating your board from "good to great" requires courage. Not all boards can do it. However, boards can take steps toward bold governance by clarifying their role as a board, challenging the status quo and assumptions, and adopting a growth mindset. Boards that are forward-thinking, courageous, and nimble, will be the ones that remain standing when the dust settles.

The Governance Institute thanks JoAnn McNutt, Ph.D., and Sara Finesilver, M.S., Organizational Psychologists and Board Consultants at Board First Consulting, LLC., and Samuel J. Santoro, D.O., FACOG, President and CEO of Sutter East Bay Medical Group, affiliated with Sutter East Bay Medical Foundation, for contributing this article. They can be reached at joann@boardfirstconsulting.com, sara@boardfirstconsulting.com, and samuel.santoro@sutterhealth.org.

Five Questions...

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plan and if so, is it being implemented effectively? If not, do we have the right leadership team? Questions to ask to ensure that the organization has the right strategic plan include:

- Does the strategic plan clearly articulate how the mission of the organization will be achieved?
- Does the plan include visionary strategies that reach into the future (2025, 2030, 2050)?
- Is the plan clear, crisp, focused, and easily understood by stakeholders?
- Is the plan comprised of strategic initiatives versus operational activities and budget plans?
- Can every individual in the organization—from board members to senior leadership to physicians/providers, clinical, administrative, and other staff—"see" themselves and their role in achieving the strategic plan?

5. Mission Appropriateness: Is the Mission Current and Reflective of the Organization's Fundamental Purpose?

A Governance Institute recommended practice is that the board examine the mission statement annually as to its appropriateness. This does not mean that the mission statement should be revised or recreated annually. Indeed, a mission statement should be written with a long-term view, allowing for adjustments that may be required due to changing circumstances and the nature of the organization itself. This mission review could include asking:

- Is the mission statement clear about purpose and role, memorable, and easily understood by internal and external stakeholders and the community?
- Is the mission statement substantial enough that it can guide decision making and choices that need to be made by people who are living and carrying out the mission in their responsibilities every day?

If there is a perceived need to further assess the appropriateness of a mission statement, consider creating a multi-dimensional and diverse *ad hoc* task force to explore updates or validate the current version on behalf of the board. Allowing people at all levels of the organization to have input into the process can create strong buy-in. Those who have had input can be ambassadors to their peers in support of the decisions that are made.

Governance Transformation: High Stakes, High Risk

Ongoing governance transformation is an essential part of ensuring that a board does not get stuck in traditional "the way it's always been done" thinking. Board responsibility in the rapidly changing environment is more demanding, high risk, and high stakes than ever before. Effective governance in these circumstances will demand willingness to change, adapt, and evolve in ways that might not have been experienced before. Boards must create the structure, policies, processes, and culture to provide effective leadership, direction, and decisions for their organizations to be sustainable in the uncertain healthcare future.

The Governance Institute thanks Guy M. Masters, M.P.A., President, Masters Healthcare Consulting, and Governance Institute Advisor, for contributing this article. He can be reached at (818) 416-2166, guymasters11@gmail.com, and www.mastershealthcareconsulting.com.

Five Questions Boards Should Ask About Governance Transformation

By Guy M. Masters, M.P.A., Masters Healthcare Consulting

> **Key Board Takeaways**
>
> - Don't get lulled into a false sense of security at any point in the coming future; circumstances are volatile due to changes in technology, regulation, politics, economic policy, global health, competitors, non-traditional disruptors, and cyberattacks. Factor these into your strategic and scenario planning.
> - If you are an independent or rural hospital, do your due diligence regarding the questions of "Can we remain independent?" and "Should we remain independent?"
> - If you are a larger hospital or health system, be cognizant of hospitals around you that may be seeking alliances, partnerships, and other relationships needed to survive.

How well has your board weathered recent extraordinary conditions (the pandemic, economic turmoil, workforce challenges and burnout, increasing expenses and declining revenues, advances in artificial intelligence, disruptive technologies and competitors, and other impactful trends and market conditions)? During recent interviews with board members at a prominent health system, we were astonished at one word that came up repeatedly (without prompting) to describe their board experience: "Exhausting!" Does this sound familiar?

This article provides five questions that boards should ask (discuss and answer) individually and collectively about governance performance and the potential to transform the board to be more effective. Transformative change requires adjusting elements that can result in leveraged outcomes in areas including structure, processes, policies, personnel, delegation and accountability formats, and setting more definitive and concrete expectations of individual directors, committees, support staff, and the board as a whole.

1. Board Structure Tune-up: Does the Board Structure Facilitate Effective Governance?

Is your board dealing with current unprecedented complex issues while functioning on a 1970s governance infrastructure? When was the last time that a full governance assessment was conducted? The Governance Institute recommends that such an evaluation be conducted regularly, including a review of the mission, committees, overall performance, and bylaws. The evaluation should be considered as a regular "maintenance" check-up, as part of due diligence and fiduciary accountability to adjust for any "drift" that might have occurred with the board over time. Additionally, when was the last time the board conducted full and/or individual director self-assessment (or peer-to-peer) performance surveys?

Some organizations postponed or put these tools and activities on hold during the pandemic. It is now essential to set a new assessment baseline to recalibrate the current state of board performance and the individual mindset of directors to assess structure, culture, processes, functions, tenure, leadership, and effectiveness. Elements to consider include:

- Assess board size, membership, competencies of directors, and terms/term limits.
- Reevaluate the number and types of committees (is it finally time to sunset one or more?); committee charters, goals, and performance expectations; and committee membership (for example, could a committee benefit from adding selected non-board members with specific expertise?).
- Be cognizant of the guideline, "Board work is done in its committees." Does your board respect the work that is done in the committees, or is there a culture where the full board rehashes reports and recommendations provided by them?
- For health systems, are there areas and ways to streamline, reduce, and simplify the number of boards in the system, committees, meeting frequency, and other aspects of the governance structure and processes?
- Are directors still participating remotely as an option or consistent practice versus as a periodic exception? Many boards have resumed meeting in person as the norm, preferring face-to-face meetings to maximize group dynamics, networking, and facilitate more interpersonal interactions.

2. Process Adjustments: Does the Governance Process Facilitate Directors to Contribute at Their Full Potential?

During our work with boards at retreats or other meetings, we often poll the group by asking each person to answer the following question: What percent of total potential contribution does the board provide to the organization? We go around the room and ask for each person's number, post these on a flip chart or white board, and ask for a brief explanation of their response. The numbers provided and their rationale is often revealing. This brief exercise is frequently the gateway to further focused dialogue about how the full potential of individual directors and the board can be maximized.

3. Strategic Dialogue: What Percent of Board Meeting Time Is Spent in Strategic Discussion?

The Governance Institute recommends that over half of board meeting time be spent in active deliberation, discussion, and debate about strategic priorities of the organization. If your board conducted an informal audit of board meeting agendas and minutes, where would it show that board meeting time is spent? Can discussions about finance, quality, workforce, or other operations-oriented topics be structured as strategic in nature? When board discussions get down into the weeds (even about strategy), it may be time to step back and examine where the lines should be drawn to ensure the board stays solidly in the strategic and governance lane.

4. Strategic Vision and Plan: Does Your Organization Have the "Right" Strategic Plan?

Richard Umbdenstock, a former health system CEO and later retired CEO of the American Hospital Association, shared his view that every board meeting should be a referendum around these questions: Do we have the right strategic

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